

Governance and risk disclosure practices in UK higher education institutions in an era of austerity and reform

Professor Collins Ntim



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Leadership Foundation for Higher Education
Peer House
8-14 Verulam Street
London
WC1X 8LZ

E: info@lfhe.ac.uk

www.lfhe.ac.uk

 @LF4HE

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Contents

| | | |
|-----------|---|-----------|
| | Executive Summary | 01 |
| | Definitions of Abbreviations | 03 |
| 01 | Introduction | 04 |
| | Background | |
| | Motivation | |
| | Objectives | |
| 02 | Institutional Framework | 06 |
| 03 | Research Design | 08 |
| | Data sources | |
| | Methodology | |
| 04 | Empirical findings and discussion | 10 |
| | Risk disclosure | |
| | Governance disclosure | |
| | Governance and financial performance data | |
| 05 | Conclusion and recommendations | 13 |
| | References | 15 |
| | Appendices | 18 |

Executive Summary

Globally, the higher education sector is experiencing rapid changes, including increasing competition, 'commercialisation', 'managerialism' and regulation. These changes have brought to the fore issues of sound governance and risk management in HEIs. However, there is a clear dearth of a serious systematic and longitudinal research examining the extent to which senior managers of UK HEIs engage with, and disclose, existing good practice recommendations relating to risk management and governance in their annual reports.

The current project, therefore, examined risk management and governance disclosure practices in UK HEIs in a period of increased budget cuts and reforms. Specifically, three main sub-objectives emerged as follows, to:

- i) develop and investigate the level of compliance with, and disclosure of, good recommendations contained in the HE risk management guidance codes relating to best risk management practices in UK HEIs.
- ii) develop and investigate the level of compliance with, and disclosure of, good recommendations contained in the HE good governance codes relating to best governance practices in UK HEIs.
- (iii) explore other governance and financial characteristics of UK HEIs.

The content analysis method was employed in collecting and analysing governance, risk and financial data from HEIs' annual/audit committee reports for sample of 117 (71%) UK HEIs over the 2009-2014 period. The main findings are as follows:

- i) The level of transparency and disclosures relating to '*risk management*' practices by UK HEIs are relatively low (e.g., compared with similar sized for-profit organisations), but the distribution varies widely, ranging from a minimum of 6.96% to a maximum of 31.76% with an average of 17.31%.
- ii) Of the three main types of risk items examined, disclosures relating to 'financial risk' were highest, compared with '*operational*' and '*strategic risk*' disclosures.
- iii) The level of transparency and disclosures relating to '*governance*' practices by UK HEIs were relatively low (e.g., compared with similar sized for-profit organisations), with the distribution equally varying widely, ranging from a minimum of 8.00% to a maximum of 75.00% with an average of 40.02%.
- iv) Of the five main types of governance mechanisms investigated, disclosures relating to '*governors and governing boards*' were the highest, whilst those relating to '*performance, evaluation, remuneration and rewards*' were the lowest.
- v) A steady increasing pattern can be observed with respect to both governance and risk disclosures that were examined over-time. However, and on average, disclosures relating to governance mechanisms were higher than those relating to risk management practices.
- vi) On comparison, the findings suggest that, on average, Pre-1992 UK HEIs made more good risk disclosures compared with their Post-1992 counterparts.
- vii) There is a discernible evidence of improving quality of governance, such as governing board independence, although others, such as governing board gender (ethnic) diversity representation, are observably low.
- viii) There are positive financial developments, such as increases in endowment funds and teaching/research income, but worrying evidence of increases in others like debt and pension costs.

On the basis of the above findings, the following summary recommendations are offered for the identified stakeholders.

Recommendation 1: Given the low levels of disclosures relating to best risk management and governance practices contained in the recommended codes, stronger monitoring and enforcement by regulatory bodies, such as HEFCE (OFS), its devolved counterparts (DFE/HEFCW/SFC) and sector-wide governance bodies, such as the CUC will be a step in the right direction.

Recommendation 2: The CUC acting in collaboration with other governance and regulatory bodies, such as the DFE, HEFCE (OFS), HEFCW, SFC and LFHE, to develop a simple and user-friendly sector wide best practice disclosure guidance relating to risk management and governance in UK HEIs.

Recommendation 3: A document outlining the level of compliance with, and disclosure of, best risk management and governance practices to an HEI's various stakeholders and general public to be included in the annual institutional accountability returns to the DFE, HEFCE/OFS, HEFCW, and SFC.

Recommendation 4: Given the relatively low representation of women, and especially Black, Asian and Minority Ethnic (BAME) groups on governing boards, HEIs to make conscious and explicit effort to recruit experienced and qualified members from that group of society.

Recommendation 5: Given the worrying signs of increasing levels of financial stress, especially relating to debt and pension costs, sector-wide financial and regulatory bodies, such as DFE, HEFCE (OFS), HEFCW, SFC and BUFDG to commission an in-depth study specifically focusing on assessing the extent of financial stress and risk with a view to recommending proactive and best practice solutions. ■

Definitions of Abbreviations

| | |
|--------------|--|
| AC | Audit Committee |
| BUFDG | British Universities Finance Directors Group |
| CSC | Committee of Scottish Chairs |
| CUC | Committee of University Chairs |
| DFE | Department for the Economy |
| HE | Higher Education |
| Hefce | Higher Education Funding Council for England |
| Hefcw | Higher Education Funding Council for Wales |
| HEI | Higher Education Institutions |
| Hera | Higher Education and Research Act |
| Herb | Higher Education and Research Bill |
| Hesa | Higher Education Statistics Agency |
| LFHE | Leadership Foundation for Higher Education |
| NSS | National Students Survey |
| OFS | Office for Students |
| PRES | Postgraduate Research Experience Survey |
| PTES | Postgraduate Taught Experience Survey |
| QAA | Quality Assurance Agency |
| REF | Research Excellence Framework |
| SFC | Scottish Funding Council |
| SLC | Student Loans Company |
| TEF | Teaching Excellence Framework |

01 Introduction

Background

The higher education sector has experienced rapid change in the past decades. Broadly speaking, the widespread decrease in direct central government funding, along with increasing competition, 'commodification', 'corporatisation', 'commercialisation', 'managerialism', 'marketisation', regulation and large student numbers, have brought to the fore the need for good governance and accountability, sound financial and risk management, and transparency and full disclosure in both these areas (Soobaroyen et al, 2014, 2016a, b; Ntim et al, 2017).

Several factors have contributed to this growing need. The neoliberal concept of new public management (NPM), which advocates improvement in the delivery of public services through the adoption of efficient private sector practice, has been influential. In the UK, there is a long track record of NPM-inspired HE reforms (Robins, 1963; Jarratt, 1985; FHEA, 1992; Nolan, 1995, 1996; Dearing, 1997; Lambert, 2003; HEA, 2004; Browne, 2010; Herb, 2016); including the adoption of private sector practices relating to auditing, financial reporting, governance and risk management in UK HEIs (Hefce, 2001, 2005; CUC, 2008, 2009; LFHE, 2009; FRS, 2015; SORP, 2015).

The 2007-08 global banking crisis was also very influential. It led to substantial cuts in the HE budget and the subsequent introduction of 'market/quasi-market' conditions in the HE sector (in particular via the 2010 Browne Report in England, which sought to achieve the contrasting objectives of reducing costs, while improving the quality of HE by increasing student choice and competition). In practice, this led to three critical changes: (i) the introduction of capped full-tuition fees; (ii) the transfer of student finance from Hefce to the Student Loans Company (SLC) in 2012; and (iii) the removal of restrictions on student numbers in 2015 in England. These free-market oriented reforms have raised the level of operational complexity and uncertainty, posing significant

threats to the long-term sustainability of the sector (Shattock, 2013); and the new environment has further strengthened the need for good governance, sound financial/risk management, and greater accountability/transparency in UK HEIs (Taylor, 2013).

Efforts to encourage direct competition for students and resources, especially in light of the 23 June 2016 historical vote by the UK to leave the European Union (the so-called 'Brexit') also have significant implications, ramifications, uncertainties and challenges for senior managers of UK HEIs in terms of robust risk management.

Concurrently, UK HE's regulatory frameworks have been increasing rapidly (especially with regards to compliance and performance expectations). For example, research quality performance has been consistently measured since 1986 (research assessment exercises, RAE, and more recently the research excellence framework, 2014 REF). Similarly, teaching quality and student satisfaction is measured through the national students survey (NSS, since 2004), the postgraduate taught experience survey (PTES, since 2005), the postgraduate research experience survey (PRES, since 2005) and more recently the Teaching Excellence Framework (TEF, since 2017). Crucially, each of these performance targets and regulatory requirements has significant implications for risk management and long-term sustainability for both individual HEIs and the HE sector as a whole. For example, with respect to performance, a fall in research and teaching quality of an HEI, as may be reflected in poor REF and TEF, especially NSS scores, can lead to a major drop in its national and international rankings, and consequently damage its reputation and ability to attract high quality national and international students, thereby putting a strain on its income generating ability.

More recently, proposed changes and reforms contained in the 2016 Higher Education and Research Bill (Herb, 2016) and subsequently, the 2017 Higher Education and Research Act (Hera, 2017) are likely to have big

implications for risk management and long-term financial sustainability in the UK HE sector. Herb (2016, 9) focusses primarily on the following three areas: (i) creating a competitive market; (ii) choice for students; and (iii) updating the regulatory architecture. It proposes, among other things, a move to a risk-based regulatory framework and the creation of a new overarching research body, UK Research and Innovation (UKRI).

In summary, environmental changes to the sector, recent reforms and future proposed changes, together pose serious challenges with respect to risk management and long-term sustainability for both individual UK HEIs and the sector as a whole. In essence, risk in the UK HE sector is evident wherever one looks ('risk is everywhere').

Motivation

Despite the increasing recognition of the importance of sound risk management and disclosure practices for the long-term sustainability of UK HEIs by policymakers, regulators, practitioners and academics (Hefce, 2005; Taylor, 2013), there is a clear dearth of serious systematic and longitudinal research examining the extent to which senior managers of UK HEIs engage with, and disclose, existing good practice recommendations relating to risk management and governance.

Similarly, despite the fact that private sector management practices are being increasingly adopted in not-for-profit organisations including HEIs, thereby increasing the importance of good governance, sound financial and risk management arrangements for NPOs, existing studies on governance and risk management practices focus primarily on for-profit organisations (FPOs) (Ahmed et al, 2004; Lajili and Zeghal, 2005; Amran et al, 2008; Elamer et al, 2017). This impairs current knowledge of how NPOs in general, and HEIs in particular, govern, manage and disclose risks in practice.

There have been a number of guides in recent years that are aimed specifically at HEIs. For example, the Higher Education Funding Council for England (Hefce, 2001 a, b, 2005) and Leadership Foundation for Higher Education (LFHE, 2009) have produced good practice guidance on risk management for governors/senior managers of UK HEIs. Similarly, since 1995, the Committee of University Chairs (CUC) and Committee of Scottish Chairs (CSC) have produced a number of guides on good governance (eg CUC, 2009, 2014), and audit and risk management (eg CUC, 2008) practices for UK HEIs. In addition, a recent LFHE funded study examining the effectiveness of ACs in UK HEIs by Soobaroyen et al (2014) indicates that risk management dominates the agenda of ACs discussions.

However, detailed data on the extent to which, and ways in which, HEIs engage with risk management and governance in practice remains slim.

Objectives

This project examined risk management and governance disclosure practices in UK HEIs in a period of increased budget cuts and reforms (2009 to 2014), with the aim of identifying, developing and disseminating 'best practice' across the sector. Within this, there were three main sub-objectives:

- (i) To investigate the level of compliance with, and disclosure of, good recommendations contained in HE risk management guidance codes relating to best risk management practices in UK HEIs.
- (ii) To investigate the level of compliance with, and disclosure of, good recommendations contained in HE good governance codes relating to best governance practices in UK HEIs.
- (iii) To explore other governance and financial characteristics of UK HEIs. ■

02 Institutional Framework

According to the 2016 Higher Education and Research Bill (Herb, 2016, 6),

“...Higher education in England is a major business and revenue generator. In 2014-15 there were 131 publicly funded higher education institutions (HEIs) in England with 1.8 million students, 170,000 academic staff, 400,000 staff of all types and total income of almost £28 billion. The sector is highly varied. Average income per HEI was £211 million in 2014-15, but 20 generated less than £25 million and four more than £1 billion. Cambridge had the highest income at £1.6 billion. The average size in terms of students was 14,000, which includes undergraduates, postgraduates, full and part-time students. The Open University taught more than 100,000 students. Manchester was the next largest provider at almost 39,000 while 15 had fewer than 1,000 students...”

Across the larger UK (including devolved administrations in Northern Ireland, Scotland and Wales) the sector is even larger and more varied. The public HE sector consists of approximately 164 HEIs which together generate a total income of £35bn a year (UUK, 2014a, b). They teach a total number of about 2 million students per year, ranging from a minimum of 338 and maximum of 378,000 students (UUK, 2017a). Approximately 300,000 students are of non-UK/EU origins (international), generating roughly £8bn in total income to the UK economy (UUK, 2017b). The sector as a whole has total assets of about £250bn, and employs a total of about 500,000 staff (UUK, 2017a, b). Given the sheer size and inherent uncertainties of the sector, the importance of governance and risk management cannot be overstated. There are a number of best practice codes in existence already, and this study focused on best practice codes relating to two areas: (i) good governance and (ii) good risk management.

i. Best practice for good governance

With respect to good governance practices, a number of codes were relied on, including the (i) 2009 and 2015 CUC HE governance codes for governors, (ii) 2013 Scottish code of good HE governance, and (iii) 2008 CUC handbook for members of audit committees.

Although these four documents do display some minor differences, in the main the governance structures contained in them are largely similar. Specifically, all of them cover governance issues related to the following five areas:

- Governors and governing boards
- Processes and structures
- Performance, evaluation, remuneration and rewards
- Auditing, accounting and accountability
- Dialogue with stakeholders and social responsibility

ii. Best practice for good risk management

With respect to good risk management practices, both prior literature and the following best practice codes were relied on: (i) the 2001a, b and 2005 Hefce risk management practice guide; (ii) the 2008 CUC handbook for members of audit committees; and (iii) the LFHE 2009 best risk management practice guidelines. These best practice codes together offer a dynamic framework for risk management practices in UK HEIs.

In these codes, one definition of risk is as *“the threat or possibility that an action or event will adversely or beneficially affect an organisation’s ability to achieve its objectives”* (LFHE, 2009, 7; CUC, 2009, 25). This is fairly similar to a definition given by Linsley and Shives (2006, 402), who define risk broadly as *“any opportunity or prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted upon the company or may impact upon the company in the future or of the management of any such opportunity, prospect, hazard, harm, or threat or exposure”*.

Existing literature broadly identifies and classifies risks into two main categories: (i) financial risks and (ii) non-financial risks (Beretta and Bozzolan, 2004; Cabedo and Tirado, 2004; Lajili and Zeghal, 2005; Berger and Gleibner, 2006; Linsley and Shives, 2006; Ntim et al, 2013). Within the latter, the two main examples are (a) operational/business risk and (b) strategic risks.

The characteristics of these main categories are laid out below:

| Category | Sub-category | Characteristics | Examples |
|------------------------|----------------------|--|---|
| 1. Financial risks | | (i) internal, monetary and short-term in nature (ii) impact directly on the assets and liabilities on the balance sheet | Liquidity, market. Credit, insolvency risks |
| 2. Non financial risks | | (i) long-term, non-monetary and external in orientation (ii) have indirect effect on balance sheet assets and liabilities | |
| | a. Operational risks | (i) regular/every-day, internal and controllable in nature (ii) can offer competitive advantages (iii) can differ according to the type of operation/organisation/industry | Legal, reputation and technology risk |
| | b. Strategic risks | (i) arise from changes in the external macroeconomic environment (ii) general and uncontrollable in nature | Changes in the political, regulatory and financial/economic environment |

A more detailed list of examples of risks that fall within each of these categories and subcategories, that was used as the basis for identifying risk disclosure in this research (see methodology), is available in Appendix A. ■

03 Research Design

Data sources

The primary source of data for this study was publically available annual reports for UK HEIs over the period 2009 to 2014 inclusive. The list of all UK public sector universities, university colleges and other HEIs was available on the Higher Education Statistics Agency (HESA) website. All 164 HEIs on this list were targeted for inclusion in this study, although in the end only 117 met the criteria for inclusion.

The main criteria for inclusion was that an HEI's annual reports from 2009 to 2014 inclusive were available. Every effort was made to obtain annual reports. Where they were not available to download on an HEI's website, direct contact was made via email or telephone to request copies.

In addition to the core data source of annual reports, these were supplemented with other reports such as the audit committee annual reports and committee reports. In practice, however, these were hard to obtain as they were rarely available in the public domain and, when they were available, they were either incomplete or not longitudinal in nature. The focus on annual reports is arguably a shortcoming in the methodology of this study, and future research with a broader dataset would be a welcome addition.

The final sample of 117 HEIs was approximately 71% of the total population of 164 HEIs, which was slightly higher than the anticipated sample of 60-70%. It was also well distributed to include different kinds of HEIs, and broadly reflective of the distribution of HEIs across the whole population. The split between pre-1992 and post-1992 HEIs was nearly equal, as in the broader population (58 pre-1992; 59 post-1992). Geographically, there were 90 English HEIs, 3 Northern Irish HEIs, 16 Scottish HEIs and eight Welsh HEIs in the final sample, which roughly aligns with the distribution across the entire population of HEIs in the UK.

Methodology

Aligning with the core objectives of this study, three data collection instruments were developed: (i) risk disclosure index; (ii) governance disclosure index; and (iii) other hard governance and financial performance data.

The risk disclosure index was developed using the best practice guides mentioned in Section 2, as well as broader prior risk management and disclosure literature. The initial list of risk items was generated based on the various guidelines, duplicate items were removed, similar items combined and they were categorised under suitable headings and subheadings. After several iterative rounds of refinements and initial piloting with a sample of annual reports, a final comprehensive list of 127 risk items was finalised. Each of the risk items allowed for scoring on a seven-point scale, ranging from 0 (no risk disclosure information) to 6 (highest quality of risk disclosure information), and each HEI was scored for each risk item, with higher cumulative scores indicating better risk management and disclosure practices and vice-versa. Appendix A contains the detailed risk disclosure index items, and Appendix B presents some examples of how, based on the annual reports, risk items were classified and scored.

The governance disclosure index was likewise based on a variety of sources (see Section 2 and Appendix C), and finalising the index list followed a similar procedure to that undertaken for the risk disclosure index. The final list of items included in the index consisted of 100 individual items, falling under the five main classifications mentioned in Section 2. A different scoring system was however used to in the risk disclosure index. This index relied instead on the widely used binary coding method for scoring governance disclosures, whereby each governance item that is disclosed is scored 1, and those that are not disclosed are scored 0. The cumulative possible score for an HEI on this index therefore ranged from 0 to 100, with higher scores indicating better governance and disclosure practices and vice versa.

The final collection of data was hard governance and financial performance data. This was a more straightforward gathering of data as specified in the annual reports. Hard governance data includes the number of governors, the number of independent governors, the number of women governors, the number of black and ethnic minority governors, the frequency of governor board meetings and the various governing board sub-board committees (audit, governance, nomination, risk and remuneration committees). Financial performance data includes total assets, surplus, debts, liabilities and total income/revenue.

Once collected, the data was analysed in three main ways:

- (i) Computing summary descriptive statistics
- (ii) Conducting two sample independent student t-test of statistical significance using means and medians of pre- and post-1992 HEIs
- (iii) Conducting graphical analyses, such as bar charts

These analyses were conducted at both summary and individual disclosure item levels, with a view to understanding to what extent HEIs currently engage in good risk management disclosure and good governance, as well as gaining more nuanced insights into which areas, within that, demonstrate better practices than others.

Like all academic and archival studies, there are of course limitations to this methodology, which need to be acknowledged. The content analysis method of coding narratives could be criticised for the inherent subjectivity involved. Likewise, in developing good risk management and governance indices, the individual items on the indices may not be exhaustive on the one hand, or be repetitive on the other. The period covered (2009-14) is not up to date, and so there may be further findings were one to study newer data; and only 117 HEIs were included in the final study where the complete view of all 164 HEIs in the UK might have brought up some slightly different findings (although since they were fairly representative in terms of size and type of institution this is not too problematic). Finally, this was a quantitative study. In future studies, in-depth qualitative approaches, such as interviews and case studies, would no doubt enrich the research findings and offer further insight on risk management and governance practices in HEIs. ■

04 Empirical findings and discussion

Risk disclosure

Statistical analyses were run on the 117 HEIs included in the study in order to gauge, first, the overall levels of risk disclosure in the university; and then risk disclosure in each of the three main sub-categories (financial risk, operational risk, strategic risk). A number of interesting findings were observed.

First, the level of risk disclosure in UK HEIs is relatively low, with an average University Risk Disclosure Index (URDI) score of only 17.31%. For comparison, Ntim et al (2013) reported an average overall risk disclosure of 41.97% for a sample of South African publicly traded firms. Like the for-profit firms, risk disclosure among UK HEIs varies hugely (the Ntim et al (2013) study reports a range from 6.42% to 72.45%, and the URDI score in this study ranged from 6.96% to 31.76%), but the average level is undoubtedly low.

Second, and consistent with previous risk disclosure studies (Greco, 2012; Ntim et al, 2013; Raj and Handley-Schachler, 2009), a steadily increasing pattern can be observed with respect to the university risk disclosures over time. The average university disclosed 16.31%, 16.63%, 17.07%, 17.47%, 17.97% and 18.41%, respectively, in 2009, 2010, 2011, 2012, 2013 and 2014, accounting for about 13 percentage points increase over the six years investigated, demonstrating increasing levels of good practice in this area, albeit starting at a low level.

Third, there are similarly low levels of risk disclosure (but with increasing patterns over time) in each of the three major sub-indices (financial risk, operational risk, strategic risk). However, the average risk disclosure is highest in financial risks and lower in the non-financial risks (Financial Risk Index average score 30.83%, Operational Risk Index average score 12.66%, Strategic Risk Index average score 16.91%). This offers further evidence to support the conjecture that UK HEIs appear to attach different importance to different types of risks, with financial risk and disclosure practices dominating senior management attention and time.

Fourth, the study looked at mean and median differences between pre-1992 and post-1992 HEIs. Historically, there are apparent differences between the mission and purpose of pre-1992 and post-1992 institutions, not least that post-1992 institutions were set up as public corporations within a neo-liberal economic context which encouraged them to embrace and operate within profit oriented style governance and management structures. For example, they are mostly managed by independent boards consisting of members with excellent business and financial experience, who run them as public corporations, whereas pre-1992 HEIs were set up by royal charters with the primary responsibility of pursuing excellence in teaching and research to support civil society (Knight, 2002; Ntim et al, 2017). Given these differences in mission and founding form, one would expect post-1992 institutions, which are more business oriented, to have better risk management and governance disclosure practices than their pre-1992 counterparts (which are expected to operate as 'traditional' universities). However, contrary to these expectations, pre-1992 HEIs were found to disclose (statistically) significantly more risks than post-1992 institutions (although in absolute terms the difference was not that great).

Fifth, in breaking down the analysis further (by each of the 127 individual risk items) some more nuanced findings were observed. For example, disclosures relating to expenditure are very high at about 70%, whilst disclosures relating to opportunity cost of non-choices are very low at about 0%. This demonstrates that UK HEIs attach different levels of importance to different risk items. However, these do not always align with best practice recommendations, suggesting that greater monitoring and enforcement of risk management standards by regulatory bodies should be encouraged.

Governance disclosure

Statistical analyses were run on the 117 HEIs included in the study in order to gauge, first, the overall levels of governance disclosure in the university; and then governance disclosure in each of the five main sub-categories (governors and governing bodies (CAG); processes and structures (PAS); performance evaluation, remuneration and rewards (PRR); auditing, accounting and accountability (AAA); and dialogue with stakeholders and social responsibility (DWS)). A number of interesting findings were observed.

First, and similar to the findings vis-a-vis risk disclosure, there is real range in terms of levels of disclosure between the different HEIs, but the overall governance disclosure levels are low compared with those that have been reported for similar sized companies in prior studies. The average University Corporate Governance Disclosure Index (UCGI) was 40.02% (ie the average UK HEI disclosed about 40 out of the 100 best governance practice recommendations), whereas, for comparison, Ntim et al. (2012a, b) and Ntim (2016) report a compliance level of 61% and 63% for a sample of South African and Sub-Saharan African listed firms, respectively.

Second, and consistent both with this study's findings about risk-disclosure and previous corporate governance disclosure studies (CUC, 2006), a steadily increasing pattern can be observed with respect to corporate governance disclosure over time. The average university disclosed 37.37%, 38.96%, 39.66%, 40.46%, 41.14% and 42.51% respectively, in 2009, 2010, 2011, 2012, 2013 and 2014, a 13 percentage point increase over the six years investigated.

Third, the study looked at mean and median differences between pre-1992 and post-1992 HEIs. Unlike the risk disclosures, there were no significant differences between these two groups.

Fourth, with regards to the five subcategories, as with the overall scores, disclosure levels has increased in each of them over the years (for example, the average CAG score increased steadily from 49.51% in 2009 to 55.21% in 2014, and the average DWS score increased from 31.87% in 2009 to 45.91% in 2014). Comparatively, disclosure was highest with respect to CAG (median score, 55.56%) and lowest with respect to PRR (median score, 22.73%).

Fifth, the average levels of disclosure relating to good governance made by UK HEIs are higher than those relating to best risk management practices. For example,

the median HEI complied with and disclosed only 16.8% of best risk management practices compared with 40% of good governance practices.

Sixth, by looking at the finer detail at the level of all 100 individual governance disclosure items, the variation was huge. Levels of disclosure range from 0% (perfect non-compliance) with regards to disclosure of quorum requirements to 99.15% (near perfect compliance) with regards to presence of audit committee.

Overall, then, disclosures relating to the major governance items than HEIs face are relatively low (compared with similar sized public companies), but levels of disclosure do vary widely from university to university. They also vary according to category, with governors and governing boards, and auditing, accounting and accountability disclosures being generally high compared with governance disclosures related to processes and structures, performance, evaluation and remuneration, and rewards and dialogue with stakeholders and social responsibility. As with risk disclosure, the overall evidence of low engagement with recommended best practice sector-wide governance standards implies that greater monitoring and enforcement from regulatory bodies such as DFE/Hefce/OFS/Hefcw/SFC would be beneficial.

Governance and financial performance data

The third objective of this study was to look at current and past internal governance practices and financial performance data across UK HEIs.

The study looked first at a number of data points related to internal governance and several interesting findings were observed.

First it looked at the composition of the governing board. The average governing board had 23.48 governors, ranging from a minimum of 11 to a maximum of 40. This is in line with the CUC's governance recommendations (CUC, 2009, 2014) and the Dearing Report (1997) which suggest that governing board of UK HEIs should have between a minimum of 12 and maximum of 25, although clearly a number of HEIs have larger governing bodies than is recommended. On average, 26.49% (about three in 10) governing board members are women, ranging from 3.33% (about one in 10) to 65% (about six/seven in 10). The representation of people from black, Asian and minority ethnic (BAME) background was extremely low, with an average of only 4.85% (about one in 10)

governing board members, ranging from 0% (nobody) to 29.41% (about two/three in 10). Given the increasing diversity of students and staff in both gender and ethnic origins in UK HEIs, this raises the question of whether the governing boards in general are representative of the people they seek to govern.

Second, it looked at the governing board sub-committees. About 21% of UK HEIs have set up a separate corporate governance committee to consider matters of governance and compliance within their institutions. Even more encouragingly, the vast majority of governing boards of UK HEIs have the four key monitoring and advisory committees that are advised as best practice, audit (99.15%), remuneration (94.16%), nomination (92.59%) and finance/resource (81.62%) committees. What's more, with the exception of the finance-resource committees, the sub-committees were mostly meeting frequently, were relatively diverse, were the recommended size and were becoming more independent. This is encouraging as it suggests that UK HEIs are largely complying with critical recommendations relating to governing boards and sub-committee independence. By contrast, and quite worryingly, the median sized UK HEI has no risk management committee, with risk committees being present in only 9.12% of UK HEIs on average. This may be one reason for the relatively low levels of risk disclosures that have been observed in this study.

Third, several governance practices, particularly those related to diversity, steadily improved over the six years examined (albeit from a low starting point). For example, gender diversity increased from 24.11% in 2009 to 29.07% in 2014 (a 21% increase), and ethnic diversity increased from 4.96% in 2009 to 5.48% in 2014 (a 10% increase). Governance board independence has also improved, moving from 50.24% in 2009 to 55.07% in 2014 (a 10% increase). For comparison, over governance practices have remained fairly stable. For example, the median governing board size, the presence of an audit committee, audit committee size, the frequency of governing board meetings and remuneration committee size all remained fairly stable over the six years investigated, implying that some practices have become entrenched in the governance structures of UK HEIs.

Fourth, there are some observable differences between pre-1992 and post-1992 UK HEIs. On average, pre-1992 institutions tend to have larger governing boards, meeting more frequently, have more independent audit committees, larger audit, finance and nomination committee sizes and more nomination committee meetings than their post-1992 counterparts. By contrast, on average, post-1992 institutions have more governors

from women and ethnic minority backgrounds, more independent or lay members, more women on their remuneration committees and more independent nomination committees than their pre-1992 counterparts, implying that pre-1992 and post-1992 institutions appear to attach importance to different governance structures.

Fifth the composition of senior management teams of UK HEIs is interesting. The average UK HEI has senior management consisting of a membership of about 10 (minimum two, maximum 35), and this average size has remained stable over the six years under investigation. The average senior management team is made up of 27.66% women (about two/three in 10), but there is a big variation between HEIs (min 0%, max 100%). By contrast, only 5.16% (about one in 10) of senior management teams in UK HEIs are from BAME backgrounds (min 0%, max 60%). Indeed, the medium UK HEIs senior management team has no member from a BAME background. A positive development is that gender and minority representation on both governing boards and senior management appear to improve over time.

The study looked next at a number of data points related to financial characteristics which also revealed a number of noteworthy findings.

First, the average UK HEI is fairly large, having average total assets of about £328.5m (minimum £2.7m, maximum £3.03bn) and average total revenue per year of £192.8m/year (minimum £1.14m/year, maximum £1.17bn/year). Much of this income comes in the form of teaching (average £68.82m) compared with research income (average £33.77m).

Second, the total assets, total income (including both research and teaching income), total endowment funds and total number of students have all experienced significant growth over the six years investigated. Teaching income, for example, increased on average from £272.77m in 2009 to £391.69m in 2014, and research income from £175.62m in 2009 to £213.25m in 2014.

Overall, these summary financial characteristics reveal some healthy developments such as increases in assets, income and endowments, but equally developments regarding debt, expenditure and funding council income, which will require strong governance and sound financial and risk management in order to survive in an increasingly competitive and uncertain operating environment. ■

05 Conclusion and recommendations

As discussed, the overall level of transparency and disclosure relating to risk management practices by UK HEIs is low, especially compared with similar sized for profit organisations. Within that, disclosure of risks relating to financial risk were highest, compared with operational and strategic risk disclosures.

Likewise, the level of transparency and disclosures relating to governance practices by UK HEIs was also low, relative to for profit organisations (although it varied widely between HEIs). Of the five main types of governance mechanisms investigated, disclosures relating to the governors and governing boards were the highest, whilst those relating to performance, evaluation, remuneration and reward were the lowest.

Positively, for both risk and governance disclosure practices, a steady increasing pattern can be observed over time.

These high-level findings (as well as the more detailed findings discussed in the last section) have several implications for the central government and regulatory bodies, policymakers, academies, governors and governing boards, senior managers and administrators of HEIs, as well as other stakeholders such as employees, students, unions and parents.

The low levels of disclosure relating to risk and governance practices of UK HEIs generally (and in relation to specific subcategories as well) implies that UK HEIs have not fully engaged with best risk and governance practice recommendations. Greater monitoring and enforcement of these best practices, especially from central government and regulatory and governance related authorities such as CSC, CUC, DFE, LFHE, Hefce/OFS, Hefcw and SFC, would be a step in the right direction. Similarly, greater activism from other stakeholders (students, staff, unions, parents and local communities), whose livelihood, current and future career prospects, and their value of their education depend on risk and governance practices that will allow competent assessment of the current and future prospects of HEIs, would be helpful. More centrally, the senior management

teams and governors and governing boards need to improve their approach to disclosure, in light of the context of rapid changes, major reforms and broader economic, social and political changes. Finally, further academic research into governance and risk management practices of HEIs in order to improve current knowledge and understanding will be required from academics.

More specifically, the following recommendations are offered for the identified stakeholders:

- I Recommendation 1:** Stronger monitoring and enforcement by regulatory bodies, such as Hefce (OFS), its devolved counterparts (DFE/Hefcw/SFC) and sector wide governance bodies, such as the CUC.
- I Recommendation 2:** The CUC acting in collaboration with other governance and regulatory bodies, such as the DFE, Hefce (OFS), Hefcw, SFC and LFHE, to develop a simple and user-friendly sector wide best practice disclosure guidance relating to risk management and governance in UK HEIs.
- I Recommendation 3:** A document outlining the level of compliance with, and disclosure of, best risk management and governance practices to an HEI's various stakeholders and general public to be included in the annual institutional accountability returns to the DFE, Hefce/OFS, Hefcw, and SFC.
- I Recommendation 4:** Given the relatively low representation of women, and especially black, Asian and minority ethnic (BAME) groups on governing boards, HEIs to make conscious and explicit effort to recruit experienced and qualified members from that group of society.
- I Recommendation 5:** Given the worrying signs of increasing levels of financial stress, especially relating to debt and pension costs, sector-wide financial and regulatory bodies, such as DFE, Hefce (OFS), Hefcw, SFC and Bufdg to commission an in-depth study specifically focusing on assessing the extent of financial stress and risk with a view to recommending proactive and best practice solutions.

In conclusion, by conducting a large-scale and in-depth empirical evaluation of risk management and governance practices within the UK HEI sector (relying on publicly available data, primarily annual reports) this study has been able to present a coherent picture of the current levels and kinds of risk management and governance disclosure practices in the sector. Based on this, it has made several recommendations of how the central government, regulators, governors and governing boards,

senior managers and administrators, policy-makers and academics might help to improve the currently low levels of disclosure. Furthermore, and in a separate document, a simple best practice guide for making governance and risk management disclosures by governors, governing boards and senior managers has been prepared, which will be of use for all types of HEIs around the world. ■

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Appendices

Appendix A: Risk disclosure index

Universities Risk Disclosure Index

| Type | No. | Risk disclosure items | Sources | Range of scores |
|------------------------|-----|---|-------------------------------------|-----------------|
| (i) Financial risks | 1 | Interest rates. | Summers and boothroyd; 37;6 | 0-6 |
| | 2 | Exchange rates. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 3 | Commodity prices. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 4 | Liquidity. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 5 | Credit/default. | Summers and boothroyd; 5;1.1 | 0-6 |
| | 6 | Capital adequacy/insolvency. | Risk prompt list for HEIs; Fi 1 | 0-6 |
| | 7 | Equity prices. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 8 | Financial derivatives/instrument. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 9 | Employee/bonus/salary/pension commitments and liabilities. | Hefce 2001a, 2005 | 0-6 |
| | 10 | Remuneration of employees earning above £100k, including REF/TEF induced increases/demands (ie salary inflation for the 'star' performers, for example, senior consultants and surgeons). | Hefce 2001a, 2005 | 0-6 |
| | 11 | Senior management, including the VC remuneration/bonus/ pension commitments and liabilities. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 12 | Government / Hefce funding policy/ real income. | Risk prompt list for HEIs; Fi 1 | 0-6 |
| | 13 | Diversification of funding sources. | Risk prompt list for HEIs; Fi 1 | 0-6 |
| | 14 | Meeting Hefce contract targets. | Risk prompt list for HEIs; Fi 2 | 0-6 |

| | | | | |
|--|---|--|--|-----|
| (i) Financial risks | 15 | Budgetary control mechanisms. | Risk prompt list for HEIs; Fi 3 | 0-6 |
| | 16 | Liabilities. | Risk prompt list for HEIs; Fi 4 | 0-6 |
| | 17 | Major contracts (eg NHS). | Risk prompt list for HEIs; Fi 4 | 0-6 |
| | 18 | Financial loss. | Risk prompt list for HEIs; Fi 5 | 0-6 |
| | 19 | Financial fraud policy. | Risk prompt list for HEIs; Fi 5 | 0-6 |
| | 20 | Audit committee financial accounting and reporting oversight. | Risk prompt list for HEIs; Fi 5 | 0-6 |
| | 21 | Finance committee oversight. | Risk prompt list for HEIs; Fi 6 | 0-6 |
| | 22 | Bidding ability. | Risk prompt list for HEIs; Fi 7 | 0-6 |
| | 23 | Staff costs. | Risk prompt list for HEIs; Fi 8 | 0-6 |
| | 24 | Expenditure. | Risk prompt list for HEIs; Fi 9 | 0-6 |
| | 25 | Insurance. | Risk prompt list for HEIs; Co 2 | 0-6 |
| | 26 | Income generation. | Summers and boothroyd; 12;2.9 | 0-6 |
| | 27 | Understanding of financial parameters by managers and governors | Summers and boothroyd; 12;2.9 | 0-6 |
| | 28 | Accounting for value-for-money: effectiveness, efficiency and economy. | Summers and boothroyd; 12;2.9 | 0-6 |
| 29 | Pension accounting and costs: Organisational commitments and liabilities. | Summers and boothroyd; 12;2.10 | 0-6 | |
| a. Business environment and processes | | | | |
| (ii) Operational risks | 30 | Governance/leadership and management. | Summers and boothroyd; 21;3.24 | 0-6 |
| | 31 | Business ethics/corruption. | Risk prompt list for HEIs; Or 6 | 0-6 |
| | 32 | Off balance sheet/contingent assets and liabilities. | Risk prompt list for HEIs; Fi | 0-6 |
| | 33 | Stock/service obsolescence and shrinkage. | Summers and boothroyd; 38 | 0-6 |
| | 34 | Sourcing/raw material. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 35 | Product development: Course/programme development. | Risk prompt list for HEIs; St 1 | 0-6 |

| | | | | |
|---------------------------|----|---|---|-----|
| (ii) Operational risks | 36 | Product/process/procedure /system service failure (eg QAA audit). | Risk prompt list for HEIs; St 1 | 0-6 |
| | 37 | League tables. | Risk prompt list for HEIs; Si 1 | 0-6 |
| | 38 | Student career paths / destinations. | Risk prompt list for HEIs; Si 2 | 0-6 |
| | 39 | Commercial contacts. | Risk prompt list for HEIs; Co 3 | 0-6 |
| | 40 | Risk management training for consulting staff. | Risk prompt list for HEIs; Co 2 | 0-6 |
| | 41 | Internal environment. | Summers and boothroyd; 12;2.7 | 0-6 |
| | 42 | External environment. | Summers and boothroyd; 12;2.7 | 0-6 |
| | 43 | Business processes and procedures/operations. | Summers and boothroyd; 11:2.3 | 0-6 |
| | 44 | Diversity and equal opportunities. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 45 | Compliance (eg international staff and student visa compliance). | Risk prompt list for HEIs; Or 6 | 0-6 |
| | 46 | Non/financial reporting/disclosure/ communication. | Summers and boothroyd; 12:2.9 | 0-6 |
| | 47 | Internal audit and control. | Summers and boothroyd; 6:1.8 | 0-6 |
| b. Risk governance | | | | |
| (ii) Operational risks | 48 | Disclosure of risk mgt. policies/board statement/ responsibilities. | Risk prompt list for HEIs; R 1 | 0-6 |
| | 49 | Disclosure of risk governance/committee existence. | Risk prompt list for HEIs; R 4 Summers & boothroyd; 18;3.9 | 0-6 |
| | 50 | Disclosure of risk committee composition. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 51 | Risk committee chairperson independence. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 52 | Disclosure of risk committee members' meetings attendance. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 53 | Disclosure of risk committee remit. | Risk Management in Higher Education A guide to good practice, prepared for Hefce by Pricewaterhouse Coopers; 35 | 0-6 |
| | 54 | Risk register. | HEFEC 2001a, 2005 | 0-6 |
| | 55 | Disclosure of risk committee membership. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |

| c. Student experience | | | | |
|---------------------------------------|----|--|--|-----|
| (ii) Operational risks | 56 | Range and structure of offered courses/ programmes. | Summers and boothroyd; 21;3.24 | 0-6 |
| | 57 | Teaching quality/teaching excellence framework (TEF) (eg introduction and implications – 2016 Higher Education and Research Bill). | Risk prompt list for HEIs; Or 6 | 0-6 |
| | 58 | Student quality: Quality of intake. | Risk prompt list for HEIs; Fi | 0-6 |
| | 59 | Student academic assessment procedures. | Summers and boothroyd; 38 | 0-6 |
| | 60 | Local community /campus location. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 61 | Meeting the changing needs and expectations of students. | Risk prompt list for HEIs; St 1 | 0-6 |
| d. Information technology (IT) | | | | |
| (ii) Operational risks | 62 | Quality of the IT infrastructure. | Summers and boothroyd; 15;2.22 | 0-6 |
| | 63 | IT disaster. | Risk prompt list for HEIs; In 1 | 0-6 |
| | 64 | Student management information system. | Risk prompt list for HEIs; In 2 | 0-6 |
| | 65 | Network safety and security. | Risk prompt list for HEIs; In 4,5 | 0-6 |
| | 66 | Compliance with Data Protection Act. | Risk prompt list for HEIs; In 6 | 0-6 |
| e. Estates and facilities | | | | |
| (ii) Operational risks | 67 | Space management: Availability, growth and use of existing space. | Risk prompt list for HEIs; Ef 1 | 0-6 |
| | 68 | Estates and facilities safety, and security. | Risk prompt list for HEIs; Ef 3 | 0-6 |
| | 69 | Estates and facilities project management. | Risk prompt list for HEIs; Ef 4 | 0-6 |
| | 70 | Compliance with statutory requirements. | Risk prompt list for HEIs; Ef 5 | 0-6 |
| | 71 | Student accommodation. | Risk prompt list for HEIs; Ef 5 | 0-6 |
| | 72 | Property/estate and facilities deterioration. | Risk prompt list for HEIs; Ef 6 | 0-6 |

| f. Human resources | | | | |
|-------------------------------|----|---|-----------------------------------|-----|
| (ii) Operational risks | 73 | Staff intake and retention, especially 'star' performance. | Risk prompt list for HEIs; R 1 | 0-6 |
| | 74 | Intake and retention of specialist academic and non-academic staff. | Risk prompt list for HEIs; Si 4 | 0-6 |
| | 75 | Integrity/management and employee fraud, including theft and pilferage. | Risk prompt list for HEIs; Fi 5 | 0-6 |
| | 76 | Adherence with employment legislation and standards of good practice. | Risk prompt list for HEIs; Si 3 | 0-6 |
| | 77 | Staff capability and turnover. | Summers and boothroyd; 14;2.20 | 0-6 |
| | 78 | Staff appraisal and line management. | Summers and boothroyd; 14;2.20 | 0-6 |
| | 79 | Staff training and development system. | Summers and boothroyd; 14;2.20 | 0-6 |
| | 80 | Other staff coping or support mechanisms, including mentoring and coaching. | Summers and boothroyd; 14;2.20 | 0-6 |
| g. Major project risks | | | | |
| (ii) Operational risks | 81 | Project appraisal and approval system. | Summers and boothroyd; 15; 2.26 | 0-6 |
| | 82 | Project delivery. | Summers and boothroyd; 15;2.26 | 0-6 |
| | 83 | Programme management. | Summers and boothroyd; 15;2.26 | 0-6 |
| | 84 | Post project evaluation. | Summers and boothroyd; 15;2.26 | 0-6 |
| | 85 | Academic research misconduct: Academic dishonesty. | Hefce 2001, 2015 | 0-6 |
| | 86 | Academic research misconduct: Unethical research. | Hefce 2001, 2005 | 0-6 |
| h. Legal risks | | | | |
| (ii) Operational risks | 87 | 'For profit' activities. | Summers and boothroyd; 13;2.11 | 0-6 |
| | 88 | Autonomy of academic staff. | Summers and boothroyd; 13;2.11 | 0-6 |
| | 89 | Subsidiary companies: Collaborative and joint provisions. | Summers and boothroyd; 13;2.12 | 0-6 |
| | 90 | Competition/proprietary/copyright. | Risk prompt list for HEIs; Fi 7-8 | 0-6 |
| | 91 | Disclosure of intellectual property. | Risk prompt list for HEIs; Co 5 | 0-6 |

| | | i. Reputational risks | | |
|---------------------------|---|---|------------------------------------|-----|
| (ii) Operational risks | 92 | Reputation/goodwill/image/brand name. | Risk prompt list for HEIs; R 1 | 0-6 |
| | 93 | Consideration to student feedback / national student survey. | Summers & boothroyd; 14;2.18 | 0-6 |
| | 94 | Links and relations with unions: Local and national including industrial action like strikes. | Risk prompt list for HEIs; R 1 | 0-6 |
| | 95 | Internationalisation: Links with national and overseas institutions, companies and alumni. | Risk prompt list for HEIs; R 3 | 0-6 |
| | 96 | Research output. | Risk prompt list for HEIs; R 4 | 0-6 |
| | 97 | Research assessment exercise/research excellence framework (REF) (eg 2016 Lord Stern REF Review). | Risk prompt list for HEIs; R 4 | 0-6 |
| | 98 | Research supervision procedures. | Risk prompt list for HEIs; R 4 | 0-6 |
| | 99 | Quality control procedures. | Risk prompt list for HEIs; R 4 | 0-6 |
| | 100 | External research funding. | Risk prompt list for HEIs; R 3 | 0-6 |
| | 101 | Student intake, including radicalisation and terrorism. | Risk prompt list for HEIs; R 1 | 0-6 |
| | 102 | Policy / procedure to manage publicity. | Risk prompt list for HEIs; R 2 | 0-6 |
| | 103 | Media and press engagement: Policy to present and respond to press comments. | Risk prompt list for HEIs; R 2 | 0-6 |
| | 104 | Press updates and reviews. | Risk prompt list for HEIs; R 2 | 0-6 |
| | 105 | Public relations staff and strategy. | Risk prompt list for HEIs; R 2 | 0-6 |
| | 106 | Marketing/student satisfaction/boycott/student union action: Local and national. | Risk prompt list for HEIs; St 3 | 0-6 |
| 107 | Social contribution/community support: Widening access. | Risk prompt list for HEIs; Or 1 | 0-6 | |
| | | j. Health and safety | | |
| (ii) Operational risks | 108 | Health and safety policies and procedures. | Risk prompt list for HEIs; R 5 | 0-6 |
| | 109 | Health and safety committee. | Risk prompt list for HEIs; R 5 | 0-6 |
| | 110 | Health and safety compliance with appropriate British standards. | Risk prompt list for HEIs; R 5 | 0-6 |
| | 111 | Health and safety training schemes. | Risk prompt list for HEIs; R 5 | 0-6 |
| | 112 | Health and safety expertise. | Risk prompt list for HEIs; R 5 | 0-6 |

| | | | | |
|--------------------------|-----|---|-------------------------------------|------------|
| (iii) Strategic risks | 113 | Sovereign/politics (eg Brexit, uncertainties, consequences and implications for UK HEIs). | Risk prompt list for HEIs; Fi 1 | 0-6 |
| | 114 | Government regulation, reforms and changes: new entrants, competition, and regulatory changes | Risk prompt list for HEIs; Fi 3 | 0-6 |
| | 115 | Taxation. | Summers and boothroyd; 36 | 0-6 |
| | 116 | GDP growth/market demand/aggregate demand. | Summers and boothroyd; 38 | 0-6 |
| | 117 | Unemployment rate. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 118 | Money supply/quantitative easing. | Summers and boothroyd; 12;2.9 | 0-6 |
| | 119 | Economic changes/impact (eg Oil price changes, financial crisis, Inflation rate). | Risk prompt list for HEIs; R 1 | 0-6 |
| | 120 | Public/budget deficit. | Risk prompt list for HEIs; Fi | 0-6 |
| | 121 | Interest rate. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 122 | National and international terrorism. | Ntim et al, Lindop, Thomas 2013;380 | 0-6 |
| | 123 | Natural disaster. | Risk prompt list for HEIs; Or 4 | 0-6 |
| | 124 | Corporate governance changes/regulations. | Risk prompt list for HEIs; Or 6 | 0-6 |
| | 125 | Growth strategy. | Summers and boothroyd; 11;2.3 | 0-6 |
| | 126 | Investment Strategy. | Summers and boothroyd; 11;2.3 | 0-6 |
| | 127 | Opportunity cost of non-choices. | Summers and boothroyd; 12;2.7 | |
| Total | | 127 risk disclosure items | | 756 |

Scoring procedure:

- 0: No risk disclosure information
- 1: Risk disclosure focusing on only past/backward looking/historical information
- 2: Risk disclosure focusing on past/backward looking and future/forward looking information
- 3: Risk disclosure focusing on past, future and bad/negative news information
- 4: Risk disclosure focusing on past, future, bad/negative and good/positive news information
- 5: Risk disclosure focusing on past, future, bad/negative, good/positive and qualitative/non-monetary information
- 6: Risk disclosure focusing on past, future, bad/negative, good/positive, qualitative and quantitative/monetary information

Sources and References:

CUC (2008). *Handbook for embers of audit committees in higher education institutions*. London: CUC.

Hefce (2001a). *Risk management: A briefing for governors and senior managers*. London: Hefce.

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Hefce (2005). *Risk management in higher education: A guide to good practice*. London: Hefce.

LFHE (2009). *Getting to grips with risk: Resources for governors of UK universities and higher education colleges*. Summers, E. and Boothroyd, K., edited by Scholfield, A., London: LFHE.

Ntim, C.G., Lindop, S., Osei, K.A. and Thomas, D.A. (2013). Corporate governance and risk reporting in South Africa: A study of corporate risk disclosures in the pre- and post-2007/2008 global financial crisis period. *International Review of Financial Analysis*, 30: 363-383.

Appendix B: Examples of risk disclosure assessment

| University | Examples of risk disclosures | Major risk disclosure category | Risk disclosure sub category | Classification/coding |
|-------------------------------|---|--------------------------------|------------------------------|--|
| University of Gloucestershire | <i>"As previously mentioned, liquidity and money management has been a particular challenge during the year. Cash flow planning has been a high priority in the year and will continue to be so. Cash forecasts are a combination of daily cash projections and rolling fifteen month projections which are updated regularly. A cautious approach to expenditure commitments and increased emphasis on risk identification and management has been effected during the year and a strategy of strengthening the liquidity of the University is being implemented."</i> (University of Gloucestershire, 2009; page 12). | Financial | Liquidity | Qualitative/ non-monetary information/ positive news information |
| University of Hertfordshire | <i>"The university was successful this year with its first joint bid to the Arts and Humanities Research Council for the Block Grant Partnership under its capacity building scheme to provide funding to 18 postgraduate masters and doctoral studentships between 2011 and 2013 in collaboration with Oxford Brookes University and University of Surrey."</i> (University of Hertfordshire, 2011; page 11). | Financial | Bidding Ability | non-monetary information/ monetary information/ positive news information |
| University of Glasgow | <i>"The past financial year saw an overall recovery in value of global stock markets. However new bequests received during the year fell from £3.5m to £1.0m. Overall the value of endowment asset investments increased from £129.5m to £153.9m. The performance of the fund managers continues to be monitored by the Investment Advisory Committee against targets set by the committee and reviewed regularly."</i> (University of Glasgow, 2013; page 4). | Strategic | Investment Strategy | monetary information/ positive news information |

| | | | | |
|----------------------------------|---|-------------|----------------------|--|
| Goldsmiths, University of London | <i>"The strategy is focused on expanding Goldsmiths to provide more financial resilience. Council have approved the development of a Sustainable Goldsmiths programme to support our strategic growth objectives. This is based on the fact that as the current custodians of Goldsmiths, its value and values, we are responsible for sustaining the university into the future. We must be as creative, efficient and effective as possible in everything to both be resilient to the myriad of external unknowns and to be able to invest in the strategic growth of Goldsmiths."</i> (Goldsmiths, University of London Annual Report, 2014; page 14). | Strategic | Growth Strategy | forward looking information/non-monetary information |
| University of Greenwich | <i>"The University has in excess of 16,000 students in circa 59 partnerships across 21 countries. Political, social and economic changes in the countries\regions in which partnerships are located are a risk to their continued operations. This risk is managed by continuous monitoring of political, social and economic developments in these countries\regions."</i> (University of Greenwich Annual Report, 2014; page 18). | Strategic | Sovereign / politics | negative news information / non-monetary information |
| University of Cambridge | <i>"Interest rate risk arises from the risk that the value of an asset or liability will fluctuate due to changes in market interest rates (i.e. for fixed interest rate assets or liabilities) or that future cash flows will fluctuate due to changes in interest rates (i.e. for floating rate assets or liabilities)."</i> (University of Cambridge, 2013; page 93). | Strategic | Interest rate | non-monetary information/forward looking information |
| City University | <i>"The Council has taken reasonable steps to ... ensure that funds relating to the contracts with the National Health Service have been properly expended on the purposes for which they have been provided ..."</i> (City University Annual Report, 2010; page 9). | Operational | Health and Safety | non-monetary information |
| Edge Hill University | <i>"The University's safety management system was formally inspected by the Health and Safety Executive in 2009 whose subsequent findings report concluded, "it is clear that the University is committed to excellence in health and safety management and has the means to achieve it""</i> (Edge Hill University Annual Report, 2010; page 14). | Operational | Health and Safety | non-monetary information |

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|-----------------------|---|-------------|---|--|
| Coventry University | <i>"We engage in extensive outreach activities to support social mobility of young people from disadvantaged backgrounds. During 2010-11 we spent a total of £5.8M to support widening participation. Working with some 60 schools and colleges as part of our Phoenix Partnership we have fostered good relationships with our local education partners in order to help pupils better understand the opportunities and career benefits that going to university can bring. We also allocate bursaries and scholarships to make education available to a wide section of the population."</i> (Coventry University Annual Report, 2011; page 9). | Operational | Social Contribution/ Community support | monetary information/non-monetary information |
| University of Essex | <i>"Student recruitment has been very strong this autumn with a record intake of 5,000 students. Recruitment at the Southend campus has been particularly successful, which is welcome given that we had capacity for growth in terms of both teaching space and student accommodation. This is testament to the hard work of staff across the whole of the university and puts us on track to achieve our aspiration of 50% growth in student number by 2018-19 ..."</i> (University of Essex Annual Report, 2014; page 3). | Operational | Student Intake | monetary information/ non-monetary information/ forward looking information / positive news information |
| Glasgow School of Art | <i>"The GSA's excellent performance in the 2008 Research Assessment Exercise (RAE 2008) continued to build the School's international research profile. With 77 staff submitted to RAE 2008, the School remains the second largest art and design research community in the UK after the University of the Arts London; with 25% of research assessed as world leading (4*) and a further 25% as internationally excellent (3*), the GSA is second amongst single subject UK art and design specialist institutions behind the Royal College of Art."</i> (GSA Annual Report, 2009; page 3). | Operational | Research Assessment Exercise | monetary information/ non-monetary information/ positive news information |

Appendix C: Governance disclosure index

| Theme | Governance disclosure items: Information on or reference to. | Source | code | Range of scores | Total score per theme |
|---------------------------------------|---|--|------|-----------------|-----------------------|
| (i) Governors and governing boards | Whether governing board meets at least 4 times in a year (FBMS) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 1 | 0-1 | 27 |
| | Disclosure of the governing board's statement of primary responsibility: Plans, strategic appointments and mission (DSPR). | CUC 2009 HE Code, CSC 2013 Code | 2 | 0-1 | |
| | Disclosure of whether the chairperson of the governing board is independent (IGBC). | CUC 2009 HE Code, CSC 2013 Code | 3 | 0-1 | |
| | Whether all members question intelligently, debate constructively, challenge rigorously, decide dispassionately and be sensitive to the views of others both inside and outside governing board meetings (QIDCDS) is disclosed. | The HE Code of Governance (2014);25;7.1 | 4 | 0-1 | |
| | Disclosure of compliance with the Committee of University Chairs (CUC/CSC) governance code of practice (CUCGCP). | CUC 2009 HE Code, CSC 2013 Code | 5 | 0-1 | |
| | Whether governors and senior managers are clearly classified into lay or independent and non-lay or independent governors and senior executives (GCLASS) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 6 | 0-1 | |
| | Whether the governing board is diverse and have women/ethnic minority members (GBDWM) is disclosed. | The Scottish code of good HE governance; 2 | 7 | 0-1 | |
| | Whether the governing board is diverse enough (age, experience, expertise, qualifications, etc) to avoid groupthink along legal and moral expectations is disclosed (DAGT). | The HE Code of Governance (2014);23;6.2 | 8 | 0-1 | |
| | Whether student and staff are represented in the governing board membership (SSMPR) is disclosed. | The HE Code of Governance (2014);11;1.4 | 9 | 0-1 | |
| | Whether the roles of VC and the chairperson of the governing board are separate (DUAL) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 10 | 0-1 | |
| | Whether a governing board of not more than 25 members (GBSIZ) and not less than 12 members is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 11 | 0-1 | |
| | Whether a governing board has a majority of 'independent' or 'lay' members (GBCOM) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 12 | 0-1 | |

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|---|---|---|----|-----|----|
| (i) Governors and governing boards | Disclosure of governing board membership (DGBM). | CUC 2009 HE Code, CSC 2013 Code | 13 | 0-1 | 27 |
| | Disclosure of members' meetings attendance record (DGBMAR). | CUC 2009 HE Code, CSC 2013 Code | 14 | 0-1 | |
| | Disclosure of Quorum requirements (DQR). | CUC 2008 Handbook | 15 | 0-1 | |
| | Disclosure of meeting procedure for non-quorum (DMPN). | CUC 2008 Handbook | 16 | 0-1 | |
| | Whether there is a narrative that the governing board shares the collective responsibility and accountability for the institution's success (CRAIS) is disclosed. | CUC 2008 Handbook | 17 | 0-1 | |
| | Whether the governing board shares the collective responsibility for risk management, internal control and the governance of the institution (CRRMICG) is disclosed. | CUC 2008 Handbook | 18 | 0-1 | |
| | Whether the governing board periodically reviews delegated authority of the officers and committees for which power has been delegated to (PRDA) is disclosed. | The HE Code of Governance (2014); 3.6 | 19 | 0-1 | |
| | Whether a policy framework on ethics, including appropriate measures of assurance is approved (PFE) is disclosed. | The HE Code of Governance (2014);14 | 20 | 0-1 | |
| | Whether a whistleblowing policy and protection for whistle-blowers is disclosed (WBP). | The HE Code of Governance (2014);14 | 21 | 0-1 | |
| | Whether institutional policies and practices are benchmarked against sector-wide practices and external requirements is disclosed (BENC). | The HE Code of Governance (2014);14 | 22 | 0-1 | |
| | Whether the existence of an institution's strategic plan (ISP) is disclosed. | The HE Code of Governance (2014);3.2 | 23 | 0-1 | |
| | Whether governing board assesses institutions sustainability, including key performance indicators (KPI) regarding financial sustainability and external impact (ISKPI) is disclosed. | The HE Code of Governance (2014);3.3 | 24 | 0-1 | |
| | Whether the governing board understands and respects the principle of academic freedom (URPAF) is disclosed. | The HE Code of Governance (2014);20;4.3 | 25 | 0-1 | |
| | Whether compliance with equality and diversity legislations is disclosed (EDL). | The HE Code of Governance (2014);23;6.1 | 26 | 0-1 | |
| | Whether governors', senior managers' and officers' biography – name, age, experience, qualifications, and responsibilities, amongst others, are disclosed (DBER). | Good HE Governance; 15 | 27 | 0-1 | |

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|---|---|---|-----|-----|----|
| (ii) Processes and structures | Whether regular reviews of compliance with laws and regulations (RPCLR) is disclosed. | CUC 2008 Handbook | 28 | 0-1 | 24 |
| | Whether regular reviews of the processes and procedures for achieving value for money in the utilisation of public funds (RPPFU) is disclosed. | CUC 2008 Handbook | 29 | 0-1 | |
| | Whether procedures and processes for avoiding conflict of interests (RPOCI) among members is disclosed. | CUC 2008 Handbook | 30 | 0-1 | |
| | Whether plans for ensuring orderly succession of governors and the senior management team (DPOSM) is disclosed. | Handbook | 31 | 0-1 | |
| | Whether members' re-appointment is based on satisfactory performance (MRSP) is disclosed. | CUC 2008 Handbook | 32 | 0-1 | |
| | Disclosure of the details of members' term of office (MTOF). | CUC 2008 Handbook | 33 | 0-1 | |
| | Disclosure of senior officers, such as the VC remuneration (DSOR) and officers earning above £100,000 per year pay packages. | CUC 2008 Handbook | 34 | 0-1 | |
| | Whether a narrative relating to the provision of timely and high quality information to the GB and its sub-committees (STAQFI) is disclosed. | CUC 2008 Handbook | 35 | 0-1 | |
| | Whether appropriate training, including induction is provided for new members (SAINM) is disclosed. | CUC 2008 Handbook | 36 | 0-1 | |
| | Whether members have access to independent professional advice (DPMAIPA) is disclosed. | CUC 2008 Handbook | 37 | 0-1 | |
| | Disclosure of the existence of the office of governing board/university/HEI secretary (EOCS). | The HE Code of Governance (2013);6;13 | 38 | 0-1 | |
| | Whether the student union and/or associations operate in a fair, democratic, accountable and financially sustainable manner (SUA) is disclosed. | The HE Code of Governance (2014);13;2.5 | 39 | 0-1 | |
| | Whether suitable arrangements exist for the continuation of the business of boards and committees in the absence of a chairperson (ACBAC) is disclosed. | The HE Code of Governance (2014);25;7.4 | 40 | 0-1 | |
| | Whether students have integral role in teaching quality and its enhancement (SIRTE) is disclosed. | Good HE Governance;4 | 41 | 0-1 | |
| Disclosure of the duties, roles and responsibilities of the GB and its sub-committees' members (DRR). | Handbook | 42 | 0-1 | | |

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|-------------------------------------|---|---|----|-----|----|
| (ii) Processes and structures | Whether the presence of an independent nomination committee (NCOM) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 43 | 0-1 | 24 |
| | Whether a nomination committee is composed by the independent chair of the board, and at least 3 independent/lay members, the head of institution, and a senior academic (COM2) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 44 | 0-1 | |
| | Whether the nomination committee is chaired by the independent chair of the board (CHAIR2) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 45 | 0-1 | |
| | Disclosure of the membership of the nomination committee (DOM2). | CUC 2009 HE Code, CSC 2013 Code | 46 | 0-1 | |
| | Disclosure of meetings attendance record of members of the nomination committee (DOMAR2). | CUC 2009 HE Code, CSC 2013 Code | 47 | 0-1 | |
| | Disclosure of the nomination committee's remit/terms of reference (DOCR2). | CUC 2009 HE Code, CSC 2013 Code | 48 | 0-1 | |
| | Whether the review of the nomination committee effectiveness and performance (RCEP2) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 49 | 0-1 | |
| | Disclosure of the frequency of nomination committees meetings – if the committee meets at least 2 times in a year (FCMS2). | CUC 2009 HE Code, CSC 2013 Code | 50 | 0-1 | |
| | Whether student and staff interests are represented on the nomination committee consisting of independent chair and independent members (SSN) is disclosed. | The Scottish code of Good Governance ; 2) | 51 | 0-1 | |

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|---|--|--|----|-----|----|
| (iii) Performance, evaluation, remuneration and rewards | Whether a review of the effectiveness and performance of the CEO (vice-chancellor, principal, provost, etc) of the institution (REPVC) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 52 | 0-1 | 22 |
| | Whether a review of the effectiveness and performance of the governing board's chair (REPGBC) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 53 | 0-1 | |
| | Whether a review of the governing board and its members' performance (REPGB) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 54 | 0-1 | |
| | Whether a review of the effectiveness and performance of the sub-committees and their members (RESCP) is disclosed. | CUC 2008 Handbook | 55 | 0-1 | |
| | Whether a review of the effectiveness and performance (regular, full, robust) against the HE code and the statutory responsibility (REHECSR) is disclosed. | The HE Code of Governance (2014);26;7.11 | 56 | 0-1 | |
| | Whether the governance structure is reviewed annually along with the institution's key performance indicators (GSKPIs) is disclosed. | Good HE Governance;26 | 57 | 0-1 | |
| | Whether external facilitation to evaluate the effectiveness of governance structure takes place at least every five years (EFEEGS) is disclosed. | Good HE Governance;26 | 58 | 0-1 | |
| | Whether the presence of an independent remuneration committee (RCOM) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 59 | 0-1 | |
| | Whether the remuneration committee is composed (COM1) at least by 3 independent or lay members. | CUC 2009 HE Code, CSC 2013 Code | 60 | 0-1 | |
| | Whether the remuneration committee chair is independent (CHAIR1) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 61 | 0-1 | |
| | Disclosure of the membership of the remuneration committee (DOM1). | CUC 2009 HE Code, CSC 2013 Code | 62 | 0-1 | |
| | Disclosure of meetings attendance record of remuneration committee members (DOMAR1). | CUC 2009 HE Code, CSC 2013 Code | 63 | 0-1 | |
| | Disclosure of the remuneration committee's remit/terms of reference (DOCR1). | CUC 2009 HE Code, CSC 2013 Code | 64 | 0-1 | |
| | Whether the frequency of the remuneration committees meetings – if the committee meets at least two times in a year (FCMS1) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 65 | 0-1 | |

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|---|--|---|----|-----|----|
| (iii) Performance, evaluation, remuneration and rewards | Whether a review of the remuneration committee's effectiveness and performance (RCEP1) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 66 | 0-1 | 22 |
| | Whether the expertise of the members of the remuneration committee (CMRM) is disclosed. | CUC 2008 Handbook | 67 | 0-1 | |
| | Whether senior management's remuneration and terms of employment are independently reviewed (RCEXP) is disclosed. | CUC 2008 Handbook | 68 | 0-1 | |
| | Whether the processes and procedures relating to staff and management remuneration (AR) are regularly reviewed is disclosed. | CUC 2008 Handbook | 69 | 0-1 | |
| | Whether statement of public interest and the safeguarding of public funds alongside institutional interest are considered (PISPF) is disclosed. | The HE Code of Governance (2014); 16;3.17;3.16 | 70 | 0-1 | |
| | Whether the governing board has set a clear policy framework for governing remuneration that is in line with the guidelines of funding bodies (CPFR) is disclosed. | Governing body and Remuneration Committee Practice on Senior Staff Remuneration; 2;10 | 71 | 0-1 | |
| | Whether governing body reflects annually on the performance of the institution as a whole in meeting the long term strategic objectives and short term KPIs (RFPI) is disclosed. | Good HE Governance;29 | 72 | 0-1 | |
| | Whether senior management team remuneration philosophy and procedure (DRPP) is disclosed. | Good HE Governance; 15 | 73 | 0-1 | |

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|---|---|---------------------------------|----|-----|----|
| (iv) Auditing, accounting and accountability | Whether the presence of an independent audit committee (ACOM) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 74 | 0-1 | 20 |
| | Whether the audit committee is composed at least by 3 independent members (COM3) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 75 | 0-1 | |
| | Whether the audit committee is chaired by an independent member (CHAIR 3) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 76 | 0-1 | |
| | Whether the full membership of the audit committee (DOM3) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 77 | 0-1 | |
| | Disclosure of audit committee members' meetings attendance record (DOMAR3). | CUC 2009 HE Code, CSC 2013 Code | 78 | 0-1 | |
| | Disclosure of the audit committee's remit/terms of reference (DOCR3). | CUC 2009 HE Code, CSC 2013 Code | 79 | 0-1 | |
| | Disclosure of the review of the audit committee's effectiveness and Performance (RCEP3). | CUC 2009 HE Code, CSC 2013 Code | 80 | 0-1 | |
| | Whether the existence of an effective internal control system (INTERCON) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 81 | 0-1 | |
| | Whether principles, procedures and philosophies underlying risk governance and disclosure (RISKGD) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 82 | 0-1 | |
| | Whether a narrative confirming the existence of effective and well re-sourced internal audit unit (INAUDIT) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 83 | 0-1 | |
| | Disclosure of the internal audit function (IAF). | CUC 2008 Handbook | 84 | 0-1 | |
| | Whether a statement confirming the going concern status (GCS) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 85 | 0-1 | |
| | Whether a narrative confirming the appropriate mix of skill and experience of the members of the audit committee – whether at least one member has recent and relevant experience in finance, accounting or auditing (FINLIT) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 86 | 0-1 | |

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|---|--|---------------------------------|----|-----|----|
| (iv) Auditing, accounting and accountability | Whether the frequency of audit committee meetings – if the committee meets at least 4 times in a year (FCMS3) is disclosed. | CUC 2009 HE Code, CSC 2013 Code | 87 | 0-1 | 20 |
| | Whether a narrative confirming that the annual report, including the financial statement presented is balanced and understandable (ARBU) is disclosed. | CUC 2008 Handbook | 88 | 0-1 | |
| | Whether narrative confirming that GB is responsible for preparing Institutional Accounts (RPIA) is disclosed. | CUC 2008 Handbook | 89 | 0-1 | |
| | Whether a narrative confirming compliance with the Nolan Principles (CNP) of public service and officer holders is disclosed. | CUC 2008 Handbook | 90 | 0-1 | |
| | Whether a narrative confirming compliance with the requirements of funding council fulfilled is disclosed. | CUC 2008 Handbook | 91 | 0-1 | |
| | Whether narrative confirming the GB the Audit Committee (CAC) to take appropriate action in relation to governance, financial and risk management of the institution is disclosed. | CUC 2008 Handbook | 92 | 0-1 | |
| | Whether a narrative confirming that the governing board has agreed a clear and written terms of reference, roles and responsibilities of the audit committee (RRAC) is disclosed. | CUC 2008 Handbook | 93 | 0-1 | |

| | | | | | |
|---|---|---|-----|------------|---|
| (v) Dialogue with stakeholders and social responsibility | Disclosure of communication channels with major stakeholders (CCMS). | CUC 2008 Handbook | 94 | 0-1 | 7 |
| | Whether a narrative relating to employee health and safety related information (EHSINFO) is disclosed. | CUC 2008 Handbook | 95 | 0-1 | |
| | Whether a narrative relating to environmental related information, policies, programmes and performance (ERINFO) is disclosed. | The Reasons to build Resilience into the future of your university Governance | 96 | 0-1 | |
| | Whether a narrative on the actual local community support and other corporate social investments or responsibilities is disclosed (NCSCSI). | CUC 2008 Handbook | 97 | 0-1 | |
| | Whether a narrative relating to national community service (NCS) is disclosed. | The Scottish code of Good HE Governance; | 98 | 0-1 | |
| | Whether a narrative relating to international community service (ICS) is disclosed. | The Scottish code of Good HE Governance; | 99 | 0-1 | |
| | Whether information on alumni activities, involvement and participation (ALUMNI) is disclosed. | The Scottish code of Good HE Governance; 7 | 100 | 0-1 | |
| Total | 100 Governance Index (GI) Item | | | 100 | |

Scoring procedure:

- 0: Governance disclosure item is not disclosed
- 1: Governance disclosure item is disclosed

Sources and References:

Committee of Scottish Chairs (CSC) (2013). *The Scottish code of HE good governance*. Edinburgh: CSC.

CUC (2008). *Handbook for members of audit committees in higher education institutions*. London: CUC.

CUC (2009). *Guide for members of higher education governing bodies in the UK*. London: CUC.

CUC (2014). *The higher education code of governance*. London, CUC.

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Contact us at

info@lfhe.ac.uk

or connect with us

 @LF4HE

 /LF4HE

 /LF4HE

 lf4he.blog

 www.lfhe.ac.uk

Inspiring
Leadership

**Leadership
Foundation**
for Higher Education

Peer House
8-14 Verulam Street
London WC1X 8LZ

T 020 3468 4810
F 020 3468 4811
E info@lfhe.ac.uk